

Message Text

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C O N F I D E N T I A L BANGKOK 3722

PASS EXIMBANK AND OPIC

FOR WALTER C. SAUER, EXIMBANK

E.O. 11652: GDS

TAGS: ETRD, US, TH

SUBJECT: SIAM KRAFT PAPER CO., LTD.

REF: BANGKOK 9727

1. AFTER MEETINGS WITH SIAM COMMERCIAL BANK(SCB) AND THAI FARMERS BANK(TFB) AND WITH BOONMA OF SIAM CEMENT(SCC) CERTAIN DIFFERENCES OF VIEWPOINT BETWEEN BANKS AND SCC APPARENT.

2. FIRST ON ISSUE OF KRUNG THAI BANK(KTB). AS STATED CLARK REFTEL BOONMA FEELS CERTAIN RESPONSIBILITY FOR KTB HAVING MADE LOAN AND CONSEQUENTLY HE DOES NOT FEEL IN POSITION TO URGE KTB TO SIGN MEMORANDUM OF UNDERSTANDING IN ABSENCE OF PREFERENCE FOR AT LEAST PART OF KTB LOAN WHICH WOULD HAVE SAME PRIORITY AS NEW LOAN. ALSO HE FEELS OBLIGATED TO HONOR SALES CONTRACT BETWEEN SKPC AND SCC PROCEEDS OF WHICH HAVE BEEN ASSIGNED KTB. ON OTHER HAND SCB AND TFB BELIEVE ASSIGNMENT HAS NO VALUE IN BANKRUPTCY SINCE NO PROCEEDS PAYABLE UNTIL DELIVERIES UNDER SALES CONTRACTS MADE. THEY URGE DELIVERIES NOT BE MADE OR AT LEAST SHARPLY REDUCED SO THAT DELIVERIES CAN BE MADE TO OTHER CUSTOMERS FOR WHICH SKPC WILL RECEIVE CASH PROCEEDS. ON THIS ISSUE BOONMA RECOGNIZES CONFLICT OF INTEREST INHERENT IN HIS POSITIONS AS CHAIRMAN OF SKPC

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EXECUTIVE COMMITTEE AND MANAGING DIRECTOR OF SCC. THEIR

BANKS ALSO ARGUE THAT KTB ASSIGNMENT OUGHT NOT TO HAVE SAME PRIORITY AS INVENTORY LIEN SINCE IT DOES NOT GENERATE CASH IN SAME WAY. FOR EXAMPLE, IF EXISTING PLEDGE OF MULTI-WALL SECURING DEBT OWED SCC WERE RELEASED AND MULTI-WALL WERE DELIVERED TO SCC RESULT WOULD BE THAT SCC WOULD GET A PREFERENCE FOR X DOLLARS FOR RELEASE OF PLEDGE AND KTB WOULD GET A PREFERENCE OF SAME AMOUNT FOR RELEASE OF ASSIGNMENT RESULTING IN PREFERENCE OF 2X WHILE ONLY X DOLLARS IN CASH GENERATED FOR SKPC. KTB RELUCTANCE TO SIGN MEMORANDUM APPARENTLY STEMS IN PART FROM BELIEF, IF NO ACTION TAKEN BY THEM, THEY WILL RECEIVE CASH UNDER ASSIGNMENT AS DELIVERIES ARE MADE TO SCC UNDER CONTRACT AND ALSO IN PART FROM RECENT RETIREMENTS OF KEY POLICY-MAKING AND ADMINISTRATIVE PERSONNEL LEAVING NO FIRM HAND IN CONTROL. AT URGING OF BOONMA, GAINER AND RAND PLAN TO TALK TO KTB OFFICIALS ON FRIDAY IN HOPE OF RESOLVING IMPASSE. OBVIOUS SOME CONCESSIONS HAVE TO BE MADE, BUT NATURE AND EXTENT NOT YET CLEAR.

3. OTHER INSTANCE OF DIFFERENCE VIEWPOINT SCB AND TFB VERSUS SCC LIES IN SCB AND TFB CONCERN THAT SCC WILL HAVE INCENTIVE AS POTENTIAL PURCHASER OF SKPC TO KEEP PURCHASE PRICE LOW. IN SUCH EVENT BANK CREDITORS MIGHT HAVE TO TAKE SUBSTANTIAL LOSS ON DEBT WHICH THEY BELIEVE WOULD SERIOUSLY UNDERMINE THEIR FINANCIAL STANDING. THEREFORE THEY SUGGEST BANK CREDITORS DEVELOP ALTERNATIVE PLAN INVOLVING SUBSTITUTION OF PREFERRED STOCK OR CONVERTIBLE DEBENTURES FOR PART OF DEBT AND A MANAGEMENT COMPANY WITH SOME INVESTMENT OF DEBT OR EQUITY AS MEANS OF BIDDING UP SCC PROPOSAL. GAINER AND RAND EXPRESSED CONCERN THAT SUCH APPROACH MIGHT DISCOURAGE FULL EFFORT BY SCC AND CAUSE CONFUSION AMONG POTENTIAL FOREIGN PARTICIPANTS. BOONMA SAYS HE HAS NO OBJECTION TO ALTERNATIVE PLAN (WHICH MIGHT HELP SCC AVOID CHARGE OF TAKING UNDUE ADVANTAGE OF SKPC), AS LONG AS CONTACTS WITH FOREIGN PARTICIPANTS ARE CO-ORDINATED BY SCC AND ANY BANK GROUP DEVELOPING AN ALTERNATIVE PLAN. SCB AND TFB ANXIOUS TO KNOW EXIMBANK-OPIC REACTION TO DEVELOPMENT OF AN ALTERNATIVE PLAN. GAINER AND RAND HAVE SO FAR RESERVED JUDGMENT.

4. GAINER AND RAND HAVE ALSO ASKED FOR EXPLANATION OF CONFIDENTIAL

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ABOVE MENTIONED DIFFERENCES BETWEEN COMPANIES WITH COMMON CROWN OWNERSHIP. ANSWER GIVEN THAT CROWN TAKES HANDS OFF ATTITUDE TOWARD MANAGEMENT OF ITS COMPANIES AND THE COMPANIES HAVE DIFFERENT INTERESTS AT STAKE.

5. BOISE CASCADE TECHNICAL CREW NOW IN THAILAND LOOKING AT PLANT. SCC ASKS IF EXIMBANK HAS BEEN ABLE TO FOLLOW UP ON INTERNATIONAL PAPER CO. AND IF EXIMBANK CAN MAKE

INQUIRY OF CROWN ZELLERBACK IN SAN FRANCISCO.

6. WILL OPIC AGREE TO SUBSTITUTE QUOTE UNDERTAKE TO
OBTAIN END QUOTE IN PLACE OF QUOTE ENDEAVOR TO OBTAIN
END QUOTE IN NEW PARAGRAPH 16 OF MEMO OF UNDERSTANDING.
NUMBER OF OTHER CHANGES AGREED UPON WITHOUT BENEFIT OPIC
REPRESENTATIVE ON HAND.
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